



**Pedro E. Segarra**  
**Mayor**

November 14, 2011

Honorable rJo Winch, Council President, and  
Members of the Court of Common Council  
City of Hartford  
550 Main Street  
Hartford, CT 06103

**RE: First Quarter Financial Report**

Dear Council President Winch:

Transmitted herewith is the First Quarter Financial Report for Fiscal Year 2011-2012 (FY 11-12). The Fiscal Year FY 11-12 Department Performance Measures Report, Quality of Life Report, Internal Audit Report and Non-Financial Resolutions Report are now all accessible on-line on the City's website: [http://managementandbudget.hartford.gov/webfiles/reports\\_and\\_presentations.aspx](http://managementandbudget.hartford.gov/webfiles/reports_and_presentations.aspx)

As we move forward through this fiscal year, it is essential that each department adheres to my first goal: **Each City office and department makes professional and fiscally responsible decisions based on data and delivers quality customer service that advances the City's well being.** Each activity and action will be monitored, measured and developed to ensure they are not only fiscally responsible but also directly responsive to the needs of the Community.

As of September 30, 2011, subject to the external auditors review, the City's Administration, without consideration of mitigating management strategies further outlined below, is conservatively forecasting an unfavorable balance between revenue and expenditures of \$ 4,812,000 or 0.9% in the General Fund, against the *Revised Budget*. (The *Revised Budget* incorporates the supplemental state revenue and the additional appropriation of \$1,250,000 recommended by the Mayor and approved by City Council for the *Livable and Sustainable Neighborhood Initiative*). This net unfavorable balance of \$4,812,000 results from a projected operating challenge of \$8,286,000, less mitigation strategies described in detail below of \$3,474,000.

Revenues for this fiscal year are anticipated to decrease from the Revised Budget level of \$547,194,221 to \$546,808,221, a reduction of \$1,036,000 or 0.2%. Expenditures, predominantly fixed overhead, for this fiscal year are currently projected to be \$550,970,221; an increase of \$3,776,000 or 0.7% above the Revised Budget. My administration has begun implementing several management strategies designed to arrive at a balanced year-end budget. While each of these initiatives are individually important, the bedrock of our financial practices is maintaining close and constant attention through weekly monitoring and monthly reporting of our revenues and expenditures. This management oversight practice has been on-going for two years and has successfully allowed us to close similar budget gaps. As of the first quarter, our management strategies are projected to mitigate approximately \$3,474,000, or 42% of the forecasted year-end shortfall. Throughout the

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fiscal year we will continue to implement the initiatives described below and report out on the status of our progress each quarter.

The following table details the forecasted unfavorable budget variances and the mitigation strategies to offset these variances as of the first quarter for FY 11-12. These budget variances and mitigation strategies will be explained in detail in the Revenue and Expenditure sections that follow.

<b>CHALLENGES:</b>	
<b>Revenues:</b>	
License & Permits	700,000
HBOE State Mandated Appropriation	643,000
Pension Unit Rent Recovery	393,000
<b>Expenses:</b>	
Benefit & Turnover Reduction Targets	4,550,000
Police OT	1,700,000
Registrar (Primaries & Redistricting)	300,000
<b>Total Challenges</b>	<b>8,286,000</b>
<b>MITIGATION / OPERATIONAL :</b>	
<b>Revenues:</b>	
Property Taxes	700,000
<b>Expenses:</b>	
Q1 Salary Savings (Open Positions, Resignations and Other - NET)	594,000
Improved Benefit Experience (Preliminary)	600,000
Competitive Pricing For Property & Casualty Insurance	500,000
Tipping Fees	500,000
Bond Refinancing	580,000
<b>Total Mitigation / Operational</b>	<b>3,474,000</b>
<b>NET</b>	<b>(4,812,000)</b>

## REVENUE PROJECTIONS

*This section provides management's revenue commentary and strategies*

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### **Management's General Revenue Enhancement Strategy for FY 2011-12**

At the time the City adopted its budget, the State budget remained unsettled, and a conservative estimate was used in the Mayor's recommended revenue budget projections. After adoption of the FY11-12 Budget, additional and unanticipated revenues were identified in the State budget, which the Mayor utilized to lower the mill rate and provide additional resources for the eradication of neighborhood blight through the *Livable and Sustainable Neighborhoods Initiative*. While we remain conservative in our fiscal outlook, we are equally confident that the State of Connecticut will work with the City to fully fund the revenue estimates.

Other strategies and concerns are presented in the following narrative.

#### **Taxes:**

Revenues from prior year tax levies are projected to exceed the Revised Budget by \$700,000. The sale of real estate tax liens impacts our future prior year tax collections, and interest can have a chilling effect on economic development; accordingly, every effort is being made to reduce dependency on the sale of tax liens with an eye towards entirely eliminating such sales.

#### **Management Strategy**

The continuation of aggressive (but fair and understanding) collection policies will continue during the fiscal year. Monitoring the tax revenue accounts is imperative in the management of the City's financial systems. As of the end of the first quarter, the \$7.9M in revenue budgeted from the sale of real estate liens is anticipated to occur towards the close of the fourth quarter; if however, prior year tax levies continue to outperform budgeted amounts, real estate tax lien sales should and will be reduced.

#### **Licenses and Permits:**

While we look forward to the spring construction season, we are currently projecting that the slow rate of recovery that has become evident over the last quarter will continue and our actual revenue may under perform the budget estimates by \$700,000 for FY 2011-2012.

#### **Management Strategy**

To offset the potential loss of revenue in this category, collection efforts continue to be a priority of the Finance Department.

#### **Fines, Forfeits and Penalties:**

These revenues are tracking in-line with the revised budget.

#### **Revenue from the Use of Money and Property:**

We are forecasting an overall decrease of \$393,000 in this category.

#### **Income from Investments:**

These revenues are tracking in-line with the revised budget.

**Income from Use of Property:**

While discussions with the City Treasurer regarding rent re-imbursement from the Pension Commission are on-going, we are not at this time expecting it to be realized (currently budgeted at \$393,000).

**Management Strategy**

The Finance Department is reviewing all City leases to identify potential revenue and is developing control procedures to ensure the collection of all lease revenue. The Finance Department, in conjunction with the DPW's facility utilization study, is in the process of reviewing all City-owned vacant buildings for potential sale and leasing opportunities.

**Intergovernmental Revenue:**

These revenues are tracking in-line with the revised budget.

**State Grants-In-Aid:**

This year, for the first time, as part of the State Budget, a small portion of the state's sales tax is now being appropriated to municipalities. As noted above, this was done after the City had adopted its own budget. At this time we do not know what that actual revenue amount will be. After the second quarter, when sales tax figures are available from the state, we will have a better indication of what to expect in this category, and will provide an update in our next quarterly report.

**Payments in Lieu of Taxes:**

These revenues are tracking in-line with the revised budget.

**Charges for Services:**

A potential shortfall is possible in this category if the Conveyance Tax continues to underperform as a result of the current economic condition in the real estate transaction market. The Finance Department projects that 3<sup>rd</sup> and 4<sup>th</sup> quarter real property transactions will compensate for the current performance of Conveyance Tax revenue.

**Other Revenues:**

An overall decrease may be realized in this category based on the following:

**Other Financing Sources:**

During the past two fiscal years the Hartford Parking Authority has set aside funds in a renewal and replacement reserve account. At the time the City adopted its revenue budget the assumption was that these funds would be transferred to the City during this fiscal year. The Finance Department remains optimistic the revenue will be transferred during the 3<sup>rd</sup> and 4<sup>th</sup> quarters of the fiscal year. The challenges posed by a recessionary economy and stubbornly high unemployment rate continue to place great stress on the taxpaying public. My administration will continue to monitor revenues closely and is aggressively pursuing opportunities to improve collections and identify new revenue sources.

## **EXPENDITURE PROJECTIONS**

*This section explains the expenditure adjustments by entity.*

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### **General Fund:**

#### **Municipal:**

Expenditures are forecasted to increase from the Revised Budget of \$547,194,221 to \$550,970,221, an increase of \$3,776,000 or 0.7%. Through the end of the First Quarter of FY 11-12, the municipal operating departments expended \$144.8 million, which equates to 26.4% of the Revised Budget. We will continue to monitor each expenditure category as the fiscal year progresses and report back to the leadership at the end of the second quarter with an updated budget forecast.

For the balance of FY 11-12 we must continue to assertively monitor and manage the General Fund expenditures to ensure a balanced year-end budget. We cannot afford actual expenses to outperform realized revenues. Budget reduction initiatives such as a delayed hiring policy for non-public safety positions, reductions in public safety overtime through closer examination of scheduling, hiring and promotional activities, a continued favorable trend in medical claims experience and other expense reductions must continue throughout the fiscal year in order to avoid actual lay-offs and upholding long-term operational and financial sustainability.

As noted above through rigorous attention, we were able to close the 2010-11 fiscal year not only with a favorable year-end balance, but a slight increase over the prior fiscal year; allowing us to continue to re-fund a substantially depleted fund balance. We are, however, still faced with financial challenges that we must address and overcome over the next several years. My Administration will continue working to manage each department's budget effectively and efficiently and to ensure that services and the business climate continues to improve.

#### **Operating Department's Personnel Expenses:**

There are several operating expense challenges that we face during the next several months. Below is a list of these challenges.

#### **Budget Target Reductions:**

During the development of the FY 11-12 Budget we set a target to reduce benefit expenditures by \$4,550,000. As Mayor I am committed to attaining these targeted budget reductions and, as of the first quarter, we are 37% of the way there. We have already seen savings of \$600,000 in medical claims, \$500,000 in property & casualty and other insurance coverage's, and a 1<sup>st</sup> quarter salary savings of \$594,000.

#### **Registrar of Voters Temporary Labor:**

It is currently projected by the Registrar's that they will exceed their Revised Budget by approximately \$300,000. The Registrar's have indicated that this will be due in large part from unbudgeted expense associated with the Republican presidential primary and the work required to redistrict the City. A review of their costs will begin this coming month.

#### **Police Overtime Expenditures:**

Police Overtime (OT) expenses, on a year-to-date basis through the 1<sup>st</sup> quarter, are running below last year. Nevertheless, due to budget reductions and increased service, the Police Chief is projecting Police OT will be

approximately \$1.7 million over budget. In order to bring these costs under control I have already directed staff to undertake a detailed analysis to breakout the cost drivers for Police OT, which we are and will use to implement strategies to reduce these costs.

**Board of Education:**

- The direct appropriation to the Hartford System of Public Schools (HSPS) will remain on-line for the first quarter report.

**Hartford Public Library:**

- The direct appropriation to the Hartford Public Library will remain on-line for the first quarter report.

The expenditure management plan for the balance of this fiscal year encompasses the following:

- A reduction in Tipping Fees of \$500,000. This is a result of lower waste volume and a concerted push by my Administration for increased recycling.
- Improved medical claims experience of \$600,000 coupled with our recent initiative to competitively bid our property and casualty insurance and other insurance coverage. Medical claims are down due to primarily to lower staffing levels.
- Due to the refinancing of existing bonded debt obligations the City will yield a one-time savings of approximately \$580,000. The depressed economy has forced lower interest rates and we are taking advantage of these lower rates to re-fund high rate bonds, thereby lowering our interest payments.
- As of the first quarter FY 11-12 the City has 98 active grants. During the first quarter the City applied for 5 new grants totaling \$5,286,000. Also, during the first quarter we received 19 new grant awards totaling \$2,156,000.

## Conclusion

My administration and I continue to work diligently to examine the operational and fiscal challenges that confront our community. Many of our residents have been deeply affected by the long and protracted economic downturn, and we anticipate lean and challenging years ahead. Today, more than at any other time in recent history, our revenue sources are at risk. With a protracted depressed economy, federal, state and local governments are facing revenue challenges which will impact our ability to balance our budget for the next several years. Even with these challenges, my Administration is committed to offsetting any revenue shortfalls by mitigating the growth of the key expenditure drivers without diminishing critical levels of service. To do this will require the full support and commitment of the Administration, Court of Common Council, City Treasurer and our employees and bargaining units.

It is our charge to consistently seek ways to make our government more accountable and more efficient. As Mayor, I will always emphasize that the delivery of quality services must result from professionally and fiscally responsible decisions that are based on data. Put another way, we can no longer make decisions based on what merely seems appropriate or what is politically expedient, but are instead based on quantitative and fiscally sound data. In spite of these challenges, we must continue to build on our positive momentum and work collaboratively and strategically to improve education, undertaking development that we are confident will lead to long-term growth, increasing the tax base and improving the overall quality of life.

I will continue to work with all stakeholders, Court of Common Council, City Treasurer, employees and bargaining units, residents and business to discover new revenue generating strategies as well as areas to reduce expenditures throughout the whole organization. Hartford can continue on its steady upward path if we remain committed to active, honest and inclusive community collaborations.

There can be no question that all efforts are being made, and I look forward to continued support from the Court of Common Council, to implement our management strategies for both revenue and expenditures to have a balanced year-end budget for FY 11-12.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Pedro E. Segarra", with a stylized flourish at the end.

Pedro E. Segarra  
Mayor